Punjab Government Gazette

EXTRAORDINARY

Published by Authority

CHANDIGARH, TUESDAY, FEBRUARY 24, 2026 (PHALGUNA 5, 1947 SAKA)

GOVERNMENT OF PUNJAB

DEPARTMENT OF LOCAL GOVERNMENT

(LOCAL GOVERNMENT – II BRANCH)

NOTIFICATION

The 20th February, 2026

No.06/06/2025-5LG2/429.- In supersession of all earlier guidelines regarding utilisation of Municipal Development Fund issued vide letter no. PWSSB-2005/W-4/18384-89, Dated 05-07-2025, the Governor of Punjab is pleased to revise the Guidelines of Municipal Development Fund, Dated 05-07-2025 namely:-

INTRODUCTION

The origin of the Municipal Development Fund (MDF) is rooted in the necessity to address the widening infrastructure gap in Punjab's rapidly expanding urban landscape. The Municipal Development Fund (MDF), was established for financing urban infrastructure development in Punjab. At its inception, the guidelines dated 05.07.2005 defined the objective was *"to finance infrastructure projects in urban areas such as water supply, sewerage, drainage, solid waste management, environmental protection & roads etc."* Accordingly, the Department of Local Government receives MDF in annual budget allocation from Finance Department.

Initially, the primary attention of the Fund was defined as the *"focus of MDF in the initial phase shall be to improve the quality of life in urban areas by comprehensive provision of water management services covering the entire water cycle from water supply, sewerage, treatment, and disposal. Storm water and drainage infrastructure would be provided. Further, it was clarified that the "the priorities of the Municipal Development Fund are firstly, to provide safe and potable drinking water for 100% population in eligible towns and its disposal in a safe manner after treatment of wastewater as per Manuals for Water Supply, Sewerage and Sewage Treatment and environment norms. Secondly, MDF will address effective storm water drainage and solid waste management projects."*

However, over the past two decades, the scope of urban development has evolved with increasing emphasis on providing civic amenities, especially cleanliness and sanitation. Hence, it is imperative to

update the scope and eligibilities of projects that can be financed by MDF. To make the fund more inclusive and responsive to the diverse needs of Urban Local Bodies of Punjab, it is proposed that the scope and eligibility criteria be redefined and expanded.

OBJECTIVES

The primary objective of the Municipal Development Fund is to finance infrastructure projects that significantly enhance the quality of life and economic productivity of urban areas in Punjab. The foundational goal of the fund is to achieve universal coverage in basic civic services. The focus in the initial phase was mainly on water management which includes covering the entire cycle from supply and sewerage to treatment and disposal but, now, it needs to be expanded and it is necessary to include holistic overall urban development.

Therefore, the scope of fund needs to be upgraded and it is imperative to include other civil amenities which includes public utilities like roads, street lights, public safety and surveillance among other amenities. In addition, the fund seeks to protect the urban environment through the development of parks, green belts, and the rejuvenation of water bodies. This aligns with sustainable development goals and climate resilient urban planning.

Moreover, since lack of maintenance/ inadequate maintenance is the primary cause of premature asset deterioration, the fund has introduced an O&M provision for water management products. It is imperative that the MDF be utilized for financing O&M expenses up to a limit of 20% of the total project cost of water management projects. This provides a vital cushion for ULBs during the initial stabilization phase of a project.

ELIGIBILITY AND SCOPE

The MDF is open to all statutory Urban Local Bodies in the State of Punjab, including Improvement Trusts. The scope of the fund has been expanded to encompass a wide array of urban interventions while maintaining strict boundaries to prevent the diversion of funds into non-essential expenditures.

To make the fund more inclusive and responsive to the diverse needs of Urban Local Bodies of Punjab, it is proposed that the scope and eligibility criteria be redefined as under:

The Municipal Development Fund (MDF) shall be provided as a grant to create and upgrade urban infrastructure and provide basic civic amenities, viz. roads, street lights, water supply, sewerage, drainage, solid waste management, sanitation, cleanliness, public utilities, public safety and surveillance, environmental protection and other sustainable infrastructure in urban local bodies, including areas under the operation and control of improvement trusts. The MDF can also be utilized for financing Operations and Maintenances (O & M) Expenses of the water supply and sewerage projects, upto the limit of 20 % of the Total Project Cost.

Sd/-
MANJIT SINGH BRAR
Secretary to Government of Punjab
Department of Local Government

Chandigarh
The 20th February, 2026

3646/2-2026/Pb. Govt. Press, S.A.S. Nagar